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July 25, 1996

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W. -- Room 814
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: CC Docket No. 96-98

Dear Chairman Hundt:

We are writing to you on behalf of the Ad Hoc Telecommunications User's Committee. Ad Hoc members are high-volume business users of telecommunications services and facilities who wish to ensure the continued availability of high quality services and facilities at reasonable prices.[1]

Ad Hoc supports the Commission's efforts to establish pro-competitive and economically efficient pricing standards for local exchange and access services. We oppose eleventh hour attempts to forestall economically efficient pricing with false claims that universal service subsidies will suffer as a result. We urge the Commission to adopt both a competitive pricing standard and an interim recovery mechanism to preserve the subsidy *status quo,* as described below.

This docket is the Commission's opportunity to adopt economically efficient pricing (*e.g.*, TSLRIC) for the services provided by incumbent local exchange carriers ("ILECs"). Some ILECs have argued that there is a "gap" between an economically efficient price and the revenue stream required to support universal service. They insist that they are entitled to recover that "gap," even if that means imposing some truncated version of access charges on competitors who would already be paying the full cost of the facilities they use through charges for unbundled network elements. The ILECs are equating their historic monopoly revenue stream with the costs of universal service; their opponents have argued that the "gap" includes far more than the costs of universal service, such as the costs of anti-competitive cross-subsidies for the ILECs' unregulated services.

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[1] Currently, the members of the Committee are Advantis, American Airlines, Inc., American Express Company, Bank of America, EDS Corporation, First Data Resources, Ford Motor Company, Honeywell, Inc., J.C. Penney Company, Inc. Online Computer Library Center (OCLC), Oracle Corporation, Monsanto Co., Proctor & Gamble, United Parcel Service (UPS), USAA, WalMart, and 3M

We previously addressed this issue in our meetings with your staff and the Common Carrier Bureau. As we pointed out in those meetings, the Commission need not distort the pricing of unbundled network elements to preserve universal service nor should it allow itself to be rushed into a decision in this docket that forecloses pro-competitive outcomes in the universal service and access reform proceedings.

Instead, the Commission should establish economically efficient network element pricing standards in this docket (and economically efficient access prices in an access reform proceeding). The Commission can simultaneously maintain the subsidy *status quo* by creating a separate recovery mechanism for the revenue difference between economically efficient prices and the inflated monopoly revenue stream that the LECs currently enjoy. Once these "gap" dollars are removed from network element and access prices and isolated in an explicit, competitively neutral subsidy charge, the Commission can systematically address in the universal service and access reform proceedings (1) whether the "gap" consists only of legitimate universal service subsidies that the ILECs' are entitled to recover; and (2) the proper method for containing and recovering those subsidies. (Attached to this letter is the material Ad Hoc used to display this proposal in meetings with FCC personnel.)

The Telecommunications Act of 1996 embodies the ILECs' decision to enter adjacent competitive markets and, in return, give up their risk-free local monopolies. The ILECs cannot now demand the preservation of their monopoly revenue streams while simultaneously seeking the authority to enter competitive markets. By choosing to expand into competitive markets, the ILECs have chosen to end their local exchange monopolies and their risk-free revenue streams. The Commission should not permit prices and competition in the ILECs' markets to be distorted in response to spurious universal service claims.

Sincerely,

Laurel Kamen, Co-Chair

Del Moore, Co-Chair

Attachment

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Managing the Gap -- TSLRIC v. FDC

1. **Clean out the rate base (reduce the gap)**
2. **Isolate "legacy" dollars**
3. **Establish recovery mechanism**

#1

Part 64
Revise reg/non-reg cost allocations;
re-allocate costs of strategic over-building

Price Caps
"X" factor adjustment and rate reduction

Isolating The "Gap":

TSLRIC (competitive) prices
v.
FDC (regulatory) prices

§ 251 Interconnection
TSLRIC pricing for interconnection elements

Access Reform
Conform access to § 251 rules with TSLRIC pricing

Universal Service reform

Price Caps Reform
Abandon "no-sharing" option
Correct the "X" factor

 # 2

"Legacy" costs:

•Regulatory distortions in cost recovery

•Vestigial gold-plating

 # 3

Option A:

No entitlement to recovery from regulated services. Permission to enter new markets creates opportunity to recover costs from other services.

Price Caps Adjustment:

Raise sharing triggers. Carriers who *can* earn more on a clean rate base *should*.

Option B:

One-time amortization of fixed amount, pegged to long-term cost of debt.
Create new rate element (cf. EARE for equal access conversion costs)

Price Caps Adjustment:

Narrow sharing zones:
50%/100 basis points
100%/200 basis points

Option C:

LEC Option

LECS permitted to pick Option A or Option B